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Business in Brief

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THE CHASE MANHATTAN BANK

Industrial production has edged off from last December's high as a result of a sharp slow-down in inventory buying. However, expenditures on services are still rising. So over-all business activity is moderately higher now than in the fourth quarter.

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The downdrift in industrial production reflects a growing feeling that this is a time for caution. Thus, inventory commitments have been chopped down. In addition, many companies are reviewing their projections of future markets and their capital expenditure programs.

The inventory slow-down comes at a time when over-all inventory-sales ratios appear reasonably conservative. There may be a problem of working off excess stocks in certain selected industries. But in most cases current inventory policy is to stand pat, and see what happens to sales.

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So far, over-all sales have continued to rise. Excluding inventory changes, purchases by consumers, businesses and governments have been running at an annual rate 5% above the fourth quarter. Surveys of business investment plans and consumer intentions to buy durable goods point to a further, though moderate, increase in the months ahead.

If these trends were to continue, the current leveling in industrial production could be followed by some advance, possibly by this fall. Meantime, the cautious approach to inventory purchases is helping to ease the inflationary pressures on the economy.

In short, the current inventory situation will turn out to be a healthy period of consolidation, *if* basic demand continues to advance. Thus, the real question is whether the major elements of strength underlying our recent growth are beginning to lose force.

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After all, the general trend of business has been upward for some 18 years. In that period, the economy has displayed impressive resiliency—to take a recent example, over-all activity rose last year in face of a 25% drop in autos and an 8% decline in housing.

Yet the very length of the recent period of general prosperity and growth raises questions about the future. Can we continue to assume that this is, to use the London Economist's phrase, a "developing economy"?

A review of the fundamental factors making for economic growth does not appear to reveal any basic erosion of their strength. In the next 5-10 years:

¶ Population growth should match the recent past, and the relatively slow increase in the labor force should stimulate investment to raise productivity.

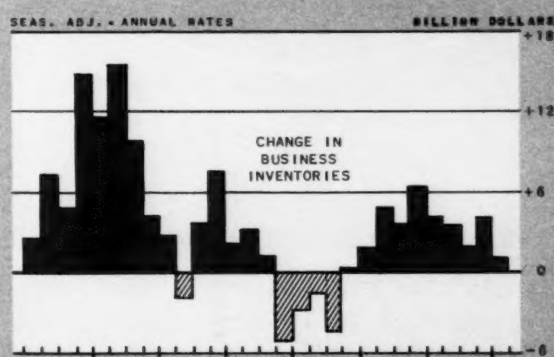
¶ The broadening of consumer markets seems to be a continuing process—every year almost 2 million families move into the $5,000 and over income group.

¶ Research is pouring out new products and processes on a scale never approached in the past.

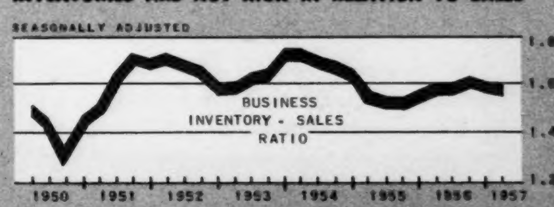
While these factors promise to create a favorable environment for growth, they do not guarantee that it will take place. But they do seem to offer a continuing challenge to the ingenuity and enterprise of the business community.

In this sense, the current cautious reappraisal of business trends may well be a healthy development. It could be a period when the policies are worked out to keep this a "developing economy" in the period ahead.

INVENTORY BUYING DROPS IN 1st QUARTER...



INVENTORIES ARE NOT HIGH IN RELATION TO SALES



DATA: DEPARTMENT OF COMMERCE

MONEY MARKET

A "Passive" Federal Reserve Policy

Federal Reserve policy has not been altered substantially so far in 1957. Except for a brief respite in January, member banks as a group have continued to be net borrowers from the Federal Reserve, and their holdings of short-term government securities have remained relatively low. Moreover, in early April, member bank borrowings were particularly heavy, rising to the highest point since 1953.

Nevertheless, the money market through March did operate in a somewhat changed atmosphere from 1956. Evidence of a progressive tightening was absent.

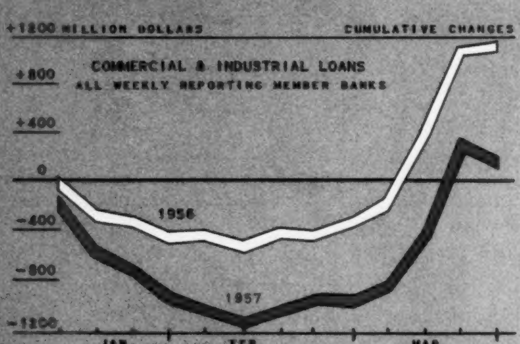
- Net borrowed reserves of member banks held to an average of $100-$300 million.

- The rate on U. S. Treasury bills relaxed to a level nearer the 3% rediscount rate of the Federal Reserve.

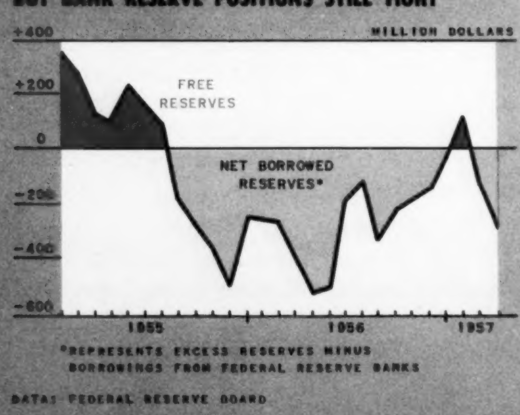
- Moreover, the capital markets digested a huge volume of new issues with a minimum of difficulty. Many of them moved to a premium.

In early April, however, the banks again experienced a period of growing tightness. Net borrowed reserves jumped to more than $600 million, while yields on U.S. Treasury bills reversed their trend and moved higher.

LOAN DEMAND BELOW A YEAR AGO...



BUT BANK RESERVE POSITIONS STILL TIGHT



*REPRESENTS EXCESS RESERVES MINUS BORROWINGS FROM FEDERAL RESERVE BANKS

DATA: FEDERAL RESERVE BOARD

Loan Demand Less Strong

In one important respect, banks in 1957 have experienced a significant change: business loan demand has not been as strong as last year. Early in April, business loans of member banks stood only $58 million above the late December level; a year earlier the advance had been almost $1 billion. The March tax borrowing again was heavy. However, the banks were able to absorb it without undue strain because of a sizeable decline in loans earlier in the year.

Actually the post-holiday loan reduction by business was the largest in recent years—a total of $1 billion in January-February. Against this, tax borrowing in March, which raised loans again by $1.2 billion, was off about 10% from 1956.

Tax borrowing had been expected to be smaller this year, chiefly because of the smaller proportion of the total tax (40%) which had to be paid at the March date. After allowance for this factor, it is apparent that business relied about as much on the banks for tax funds this year as last.

The main difference in the loan picture today from a year ago stems from the change in inventory policy. In the first-half of 1956 business was borrowing heavily to add to inventories. Today the need for funds for this purpose appears to be greatly reduced.

Federal Reserve Action

In the face of these trends, the Federal Reserve is pursuing what Chairman Martin has characterized as "a passive policy." This does not mean the monetary authorities are standing idly by in the wings.

On the contrary, the Federal Reserve has moved rather vigorously to anticipate monetary changes which are purely seasonal (or the result of extraneous developments), and to provide offsets to them.

- In the period of seasonal ease during January-February, the Federal Reserve either sold or failed to replace securities amounting to $2.1 billion. This acted to hold bank reserve positions relatively tight.

- As the March tax season approached, the authorities turned around and added some $324 million to Federal Reserve portfolios, thereby assisting member banks to meet the peak loan demand.

Throughout the year to date there has been little evidence that the monetary authorities have been willing to take the initiative in moving toward an easier money position. Indeed, experience in early April was quite the contrary. In the circumstances, easier money is only likely to result if loan demand lags considerably behind what is normal for the period ahead.

AUTOMOBILE TRENDS

A hardy perennial every Spring is the question: How are the new cars selling? It's an important question, for the automobile industry has long played a major role in our economy. In recent years, for example, automotive gross product (spending by consumers and business for vehicles and parts) has varied from a high of 6.3% of the total in 1955 to a low of 4.4% in 1954.

Changing Seasonal Patterns

Most observers had looked for the traditionally sharp Spring pick-up in sales this year, but the results so far have not been overly encouraging. In pre-war years sales from May through July generally accounted for about 45% of the annual total. More recently, however, sales have exhibited smaller seasonal fluctuations.

- For one thing, car use has become much more of a year-round affair. Buyers seem less prone to concentrate their purchasing in the Spring and are spacing their orders more evenly throughout the year.

- In addition, manufacturers would seem to prefer a better balanced production schedule. Under union-management agreements many seasonally laid-off workers have become eligible for supplementary unemployment benefits.

If we do have a new seasonal pattern, lack of a Spring pick-up need not necessarily indicate that 1957 will be a poor year. Under these changing circumstances sales might still exceed six million units – somewhat higher than last year's 5.8 million – and one of the best years on record. And if we consider that list prices are ranging about 5% higher, and that buyers seem to be upgrading their purchases, expenditures for cars might actually top 1956 by more than 10%.

Future Demand

Since the end of the war we've turned out almost 60 million passenger cars – roughly 45% of the total produced since 1900. The peak year, 1955, saw output reach 7.9 million units, compared with 4.5 million in 1929, the highest pre-war year.

These contrasts raise the major question as to whether or not such high levels of activity can be maintained in the future. Although production and sales will undoubtedly continue to fluctuate over the years, there are several favorable factors indicating that the general upward trend will probably continue.

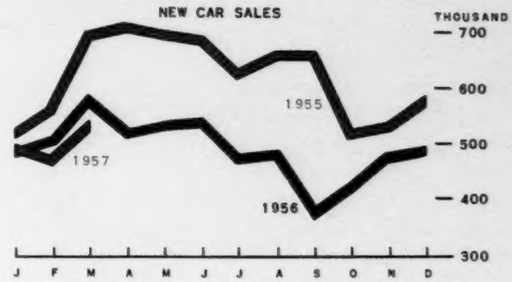
- Population and personal incomes have been rising rapidly. Today, 41% of all families earn over $5,000 a year as compared with but 26% in 1952. And by 1965 this figure could exceed 55%. More people can afford cars – and better cars.

- In addition, the movement to the suburbs has increased America's dependency upon automobiles. Almost 10% of all families now own two or more cars in comparison with only 3% in 1949.

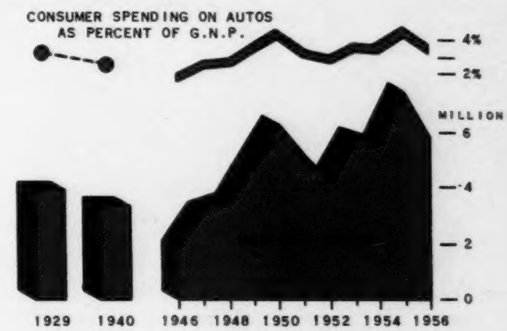
- Improved roads on which to drive – and more leisure in which to do so – should also stimulate buying. Within 15 years the network of super-highways outlined under the Federal-Aid Highway Act of 1956 may make it possible to travel from coast to coast without encountering a stop light.

All in all, the longer-term outlook for the industry is favorable for further growth. Accordingly, the industry itself has estimated that annual output may reach 8 million units by 1965.

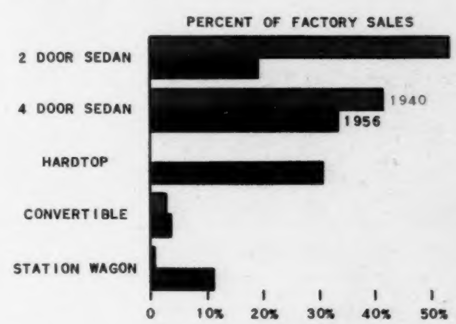
RECENT SALES PICTURE...



POST-WAR TRENDS...

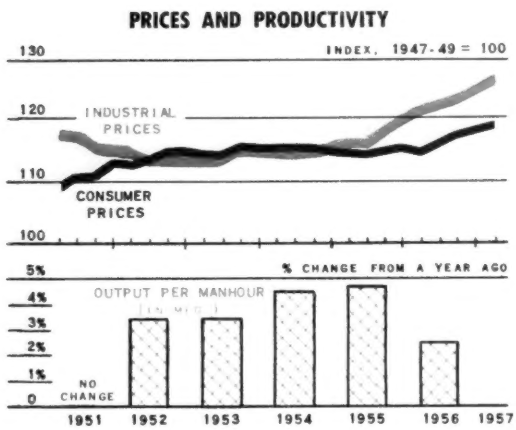


CHANGING STYLES...

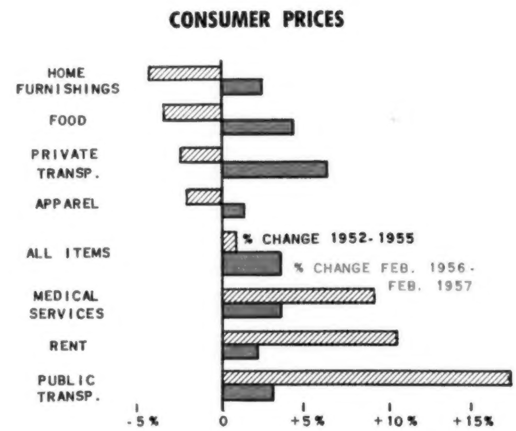


DATA: DEPARTMENT OF COMMERCE AND WARD'S AUTOMOBILE REPORTS

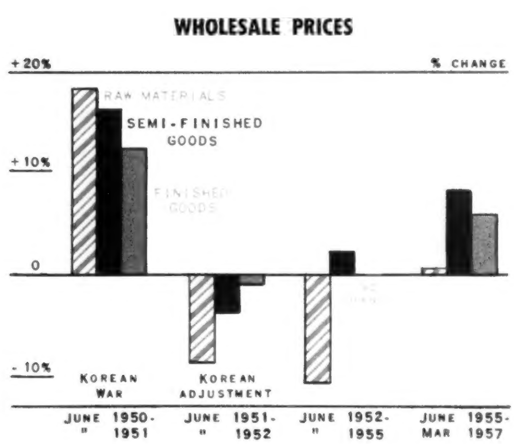
RECENT PRICE TRENDS . . .



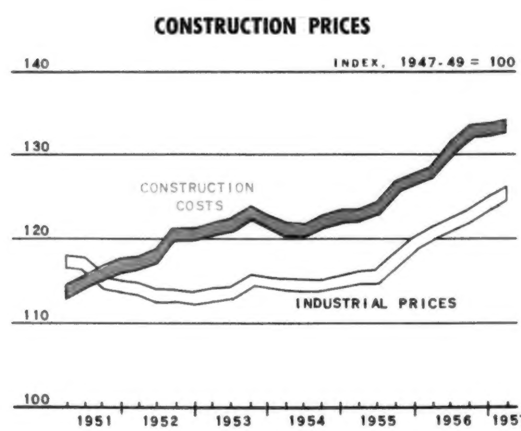
Industrial prices moved up sharply from mid-1955 to the start of 1957 as productivity lagged behind wages. Recently, however, industrial prices have levelled off.



Between 1952 and 1955, the consumer price index held steady. However, the prices of most goods actually fell, while the price of services rose. During the past year, this precarious balance was upset as the prices of consumer goods moved up too.



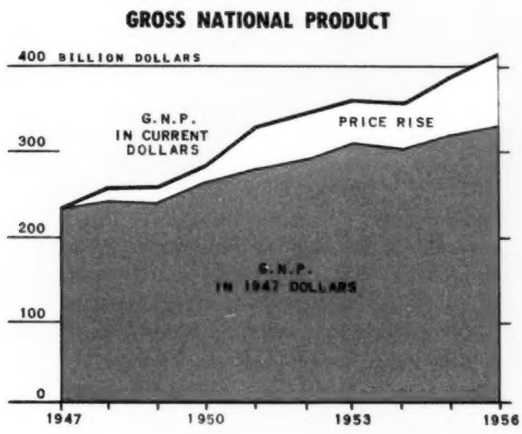
Wholesale price changes differ among economic sectors. Raw material prices, the most volatile, rose sharply during the Korean War, then fell abruptly. Other prices moved in a narrower range.



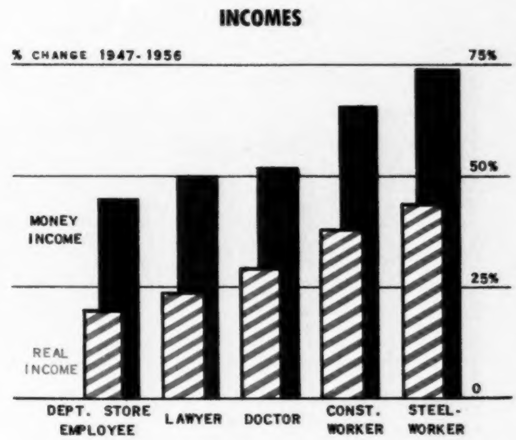
While industrial prices changed little between mid 1951 and 1955, construction costs rose 8%. In areas like New York and Chicago, the spread was probably greater than the averages show.

DATA: DEPT. OF AGRICULTURE, DEPT. OF COMMERCE, DEPT. OF LABOR, TREASURY DEPT., MOODY'S INVESTORS SERVICE, STANDARD & POORS', ARCHITECTURAL FORUM AND DE BEERS.

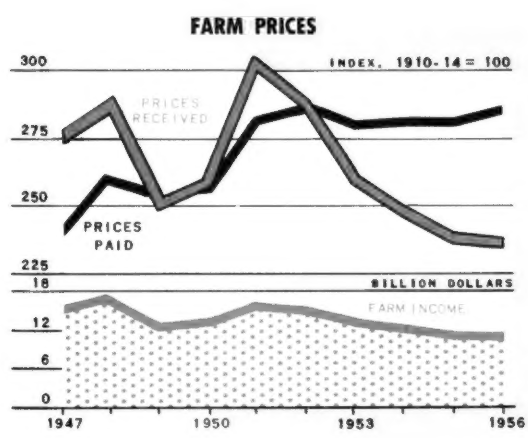
AND THEIR ECONOMIC EFFECTS



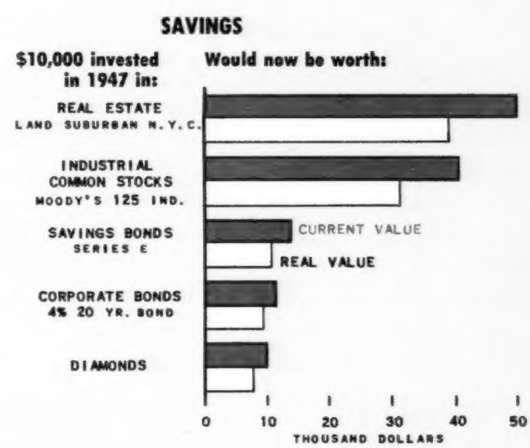
From 1947 to 1956 higher prices accounted for 45% of the rise in gross national product. Even when consumer and wholesale prices were stable, part of the dollar gain in gross national product represented higher prices for construction and services.



Buying power has lagged behind income because of higher prices. Since 1947, hourly earnings of steelworkers have risen 74%; real earnings are up only 42%. For department store employees, wages rose 45%; real income, 20%.



Since 1951, prices received by farmers have fallen 22% – putting pressure on farm income. Recently, farm prices have strengthened and the outlook is good for an improvement in farm income this year.



Changes in the cost of living affect the real value of savings. Investment in suburban land around New York City, for example, yielded a large gain in real value since 1947, while money put into diamonds, where the price has been stable, showed a loss in real terms.

SAVINGS AND INVESTMENT

The past year has been marked by a lively discussion revolving around two questions: "Are we saving enough?" and "Are we investing too much?" Unfortunately, much of the discussion generated more heat than light, because of a lack of understanding of what constitutes "savings" and "investment". What do the facts show about recent trends in these two strategic economic factors?

Defining Savings and Investment

By definition, savings represent the difference between income and spending on current consumption. That difference is available to finance investment of all types. Thus, for the economy as a whole savings and investment are equal.

Yet the process of arriving at this over-all balance can have a major influence on the state of business. The people or businesses who save may not invest an amount equal to their savings. Thus, we have developed an elaborate financial mechanism to channel these savings into productive investment.

What is more, the general level of savings and investment has an important bearing on economic growth and stability. If the nation tries to invest more than it is prepared to save in a period of prosperity, the result will be an inflationary rise in prices.

To see in more specific terms what is involved, look first at what the nation invested last year. Altogether, investment added up to about $114 billion—that was more than one-quarter of our total production of goods and services. This massive statistic covers investment in its broadest sense — including items like consumer durables and Government public works which usually are omitted. However, this spending is for goods that generally last for more than three years. Therefore, although they do not add to productive capacity, they can be considered investment that increases total national wealth.

When you separate investment expenditures into their components, you find that they were divided this way:

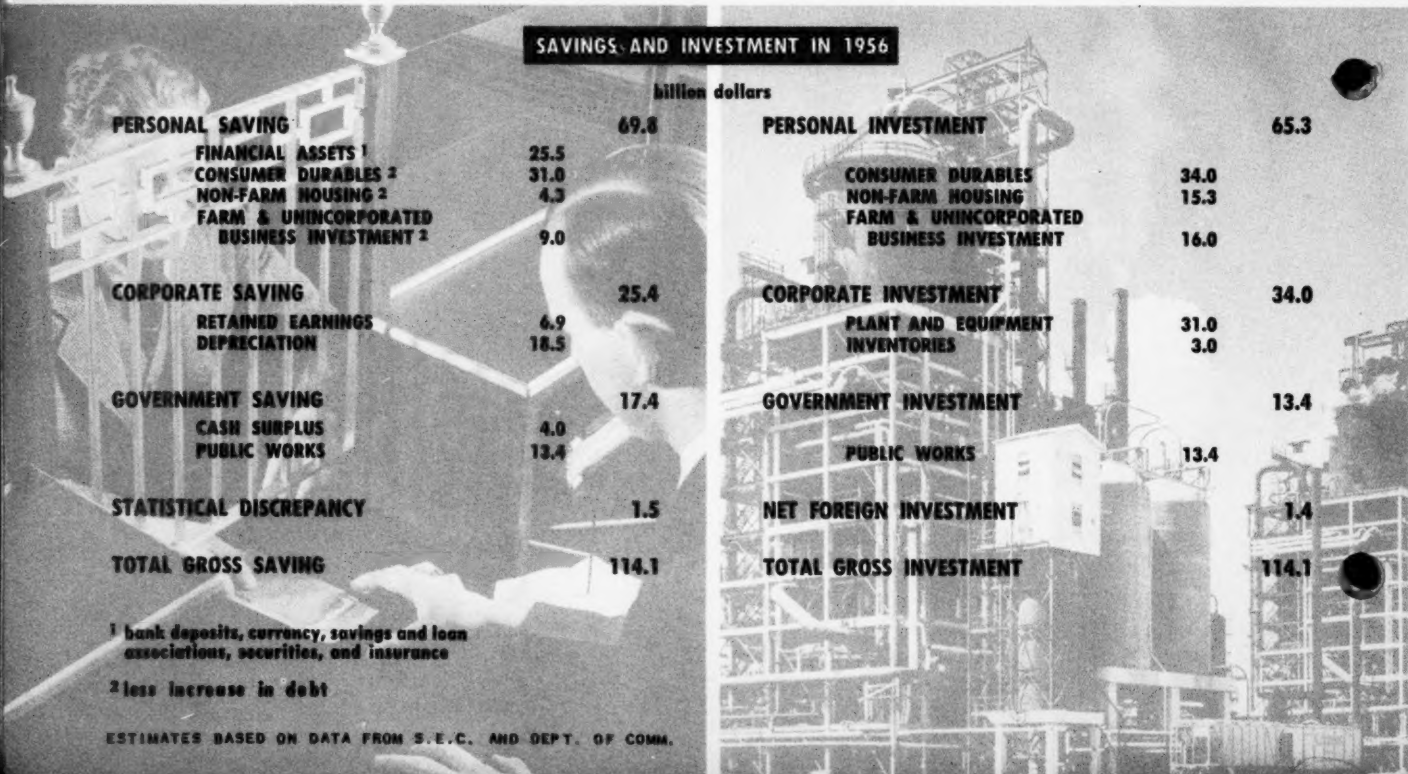
- Consumers invested $49.3 billion in 1956 — a decline of 6% from 1955.
- Corporations invested $34 billion in plant, equipment and inventories; farms and unincorporated businesses about $16 billion. Net foreign investment was $1.4 billion — bringing total business investment to $51.4 billion — 18% more than in 1955.
- Finally, Government invested $13.4 billion in its construction programs—$1 billion more than in 1955.

Financing Investment

How was $114 billion in investment financed? If we look at who saved and how, we can get some idea of the flow of funds in the savings-investment process.

First, let's look at the consumer side again. According to the Department of Commerce, personal savings in 1956 were $20.8 billion. This estimate excludes consumer durables. It is a net measure of savings by consumers, farms and unincorporated businesses, after deducting depreciation on homes, farms, plant and equipment.

However, a gross figure is more appropriate if we want to compare savings with gross investment. Here is



SAVINGS AND INVESTMENT IN 1956

billion dollars

PERSONAL SAVING		69.8	PERSONAL INVESTMENT		65.3
FINANCIAL ASSETS [1]	25.5				
CONSUMER DURABLES [2]	31.0		CONSUMER DURABLES	34.0	
NON-FARM HOUSING [2]	4.3		NON-FARM HOUSING	15.3	
FARM & UNINCORPORATED BUSINESS INVESTMENT [2]	9.0		FARM & UNINCORPORATED BUSINESS INVESTMENT	16.0	
CORPORATE SAVING		25.4	CORPORATE INVESTMENT		34.0
RETAINED EARNINGS	6.9		PLANT AND EQUIPMENT	31.0	
DEPRECIATION	18.5		INVENTORIES	3.0	
GOVERNMENT SAVING		17.4	GOVERNMENT INVESTMENT		13.4
CASH SURPLUS	4.0				
PUBLIC WORKS	13.4		PUBLIC WORKS	13.4	
STATISTICAL DISCREPANCY		1.5	NET FOREIGN INVESTMENT		1.4
TOTAL GROSS SAVING		114.1	TOTAL GROSS INVESTMENT		114.1

[1] bank deposits, currency, savings and loan associations, securities, and insurance

[2] less increase in debt

ESTIMATES BASED ON DATA FROM S.E.C. AND DEPT. OF COMM.

how savings for the personal sector then line up:

- Consumers, farmers and unincorporated businesses saved $25.5 billion in financial assets. Savings in these forms rose 13% last year.
- After deducting the increase in debt from total expenditures, they saved $31 billion in durables, $4.3 billion in housing and $9 billion in the physical assets of farms and unincorporated businesses.

This brings total personal savings to $69.8 billion. How do these figures shape up with the investment side? We have already seen that consumers invested $49.3 billion while farms and unincorporated businesses accounted for another $16 billion — a total of $65.3 billion. This meant that saving by individuals exceeded investment by $4.5 billion — the amount which individuals, on balance, contributed to investment in other sectors of the economy.

For the Government sector, savings were $4 billion greater than investment. Savings equaled $17.4 billion —$13.4 billion public works and $4 billion in the surplus of total cash receipts over expenditures.

Corporate Investment Demand

Consequently, savings exceeded investment for the government and personal sectors. The corporate sector, however, showed the other side of the coin. Corporate gross savings were practically unchanged in 1956 at $25 billion — retained earnings fell slightly while depreciation allowances increased. Investment in plant, equipment and working capital, however, reached more than $34 billion — a 25% gain over 1955.

In other words, corporations had to turn to the money market for $9 billion of investment funds last year. In contrast, they needed only $2 billion of external financing in 1955. This sharp increase in corporate demands on bank and security markets taxed our ability to channel savings into investment.

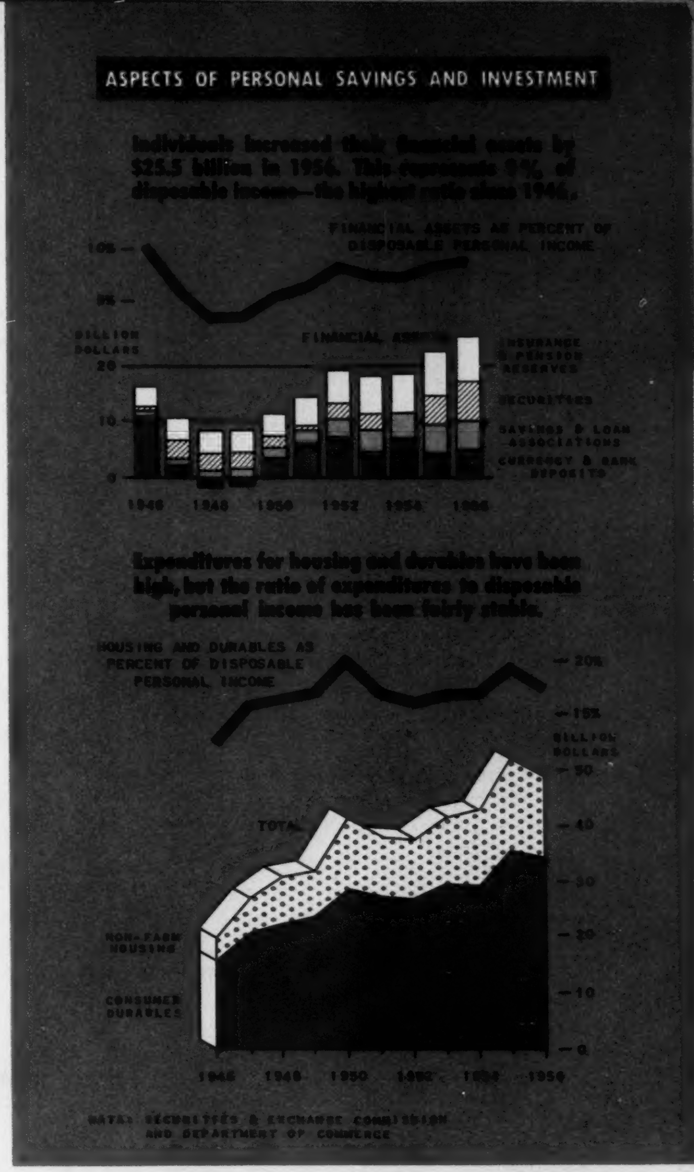
To keep the nation's total investment in line with the substantial growth in savings, the Federal Reserve pursued a tight money policy during 1956. Banks and other financial institutions sold government securities to the sectors of the economy that saved and used the proceeds to finance the increase in business investment.

In the process, not all the investment that the economy was seeking to make was financed. In large part because of an artificial interest-rate ceiling on government-guaranteed mortgages, the flow of funds into VA and FHA housing was constricted. In addition, many businesses (and municipalities) had to postpone borrowings. Yet it seems that an attempt to accommodate all demands for investment funds last year would have merely added fuel to the inflationary fire.

Impact of Savings and Investment on the Economy

One of the biggest questions raised by the savings-investment statistics is: can we continue to devote more than one-quarter of our total production to gross investment, or will we soon be plagued by excess capacity?

For perspective, it is useful to look at recent trends.



Actually gross investment as a percent of total production in 1956 was only slightly higher than the post-war average and apparently was not out of line with the historical trend since the turn of the century. Furthermore, only part of gross investment increases capacity.

- Investment in housing and durables, while adding to national wealth, does not increase productive potential;
- Though government investment in roads, schools and hospitals adds indirectly to our capacity to produce, it is difficult to measure the contribution.

Finally, a substantial proportion of gross investment — perhaps more than one-half — represents replacement of our capital assets, rather than expansion.

When you consider all factors, it becomes apparent that a growth economy must devote a sizeable proportion of its output to investment purposes — in short it must save.

A banker talks . . .

Some noon hours he only listens.

But talking, or just taking things in, a banker gets to know what his neighbors think.

This is necessary because a banker has to know a community inside out before he can give it financial guidance, and put its idle money to work in wise and profitable ways.

So bankers live and work in the communities they serve. They share the ups and downs of home-grown economies. They lend a sympathetic ear to individual problems and offer advice or counsel when it is sought. And they willingly accept the civic leadership placed in their hands by neighbors.

Participating, talking and listening, bankers build progressively better banks. The net result is that commercial banking today solidly underpins the American way of doing business, and has the respect of the American people.

The Chase Manhattan Bank is proud to represent and provide banking service in New York for more than 3,900 banks in towns, villages and cities from coast to coast.

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